

LAKE PARK MUNICIPAL UTILITIES

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
AND SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

LAKE PARK MUNICIPAL UTILITIES
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LAKE PARK MUNICIPAL UTILITIES
LAKE PARK, IOWA

JUNE 30, 2006

OFFICIALS
(Before January 2006)

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Stan Anderson	Trustee (Chairman)	December 31, 2008
Marie Matthiesen	Trustee (Vice-Chairman)	December 31, 2009
John Engel	Trustee (Secretary/Treasurer)	December 31, 2005
Joni Roslansky	Trustee	December 31, 2010
Brent Jacobsen	Trustee	December 31, 2006

OFFICIALS
(After January 2006)

Marie Matthiesen	Trustee (Chairman)	December 31, 2009
Brent Jacobsen	Trustee (Vice-Chairman)	December 31, 2006
Stan Anderson	Trustee (Secretary/Treasurer)	December 31, 2008
Joni Roslansky	Trustee	December 31, 2010
John Woods	Trustee	December 31, 2007

Bradley Brinkman	Utility Manager
Linda Treharne	Municipal Clerk

WINTHER, STAVE & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Lake Park Municipal Utilities
Lake Park, IA 51347

We have audited the accompanying financial statements of the business-type activities and each major fund of Lake Park Municipal Utilities (Utilities), a component unit of the City of Lake Park, as of and for the year ended June 30, 2006, which collectively comprise Lake Park Municipal Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not observe the taking of the physical inventories at June 30, 2006 (stated at \$198,590) since that date was prior to the time we were initially engaged as auditors for the Utilities. We were unable to satisfy ourselves about inventory quantities by means of other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the physical inventories taken as of June 30, 2006, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Lake Park Municipal Utilities at June 30, 2006, and the respective changes in the funds' financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2007 on our consideration of Lake Park Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *General Auditing Standards*, and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 21 and 22 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Lake Park Municipal Utilities has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Winters, Stave & Co., LLP

May 30, 2007

BASIC FINANCIAL STATEMENTS

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Business-Type Activities
ASSETS:	
Cash and cash equivalents	\$ 449,442
Accounts receivable	176,091
Inventory	198,590
Other current assets	20,911
Total current assets	845,034
Restricted assets	357,672
Other assets	194,314
Capital assets - net of accumulated depreciation	4,030,583
TOTAL ASSETS	<u>5,427,603</u>
LIABILITIES:	
Accounts payable	154,041
Accrued expenses	35,803
Customer meter deposits	6,877
Total current liabilities	196,721
Long-term liabilities:	
Due or payable within one year:	
Revenue bonds/notes	130,000
Due or payable after one year:	
Revenue bonds/notes	2,545,000
TOTAL LIABILITIES	<u>2,871,721</u>
NET ASSETS:	
Invested in capital assets - net of related debt	<u>1,485,583</u>
Restricted:	
Debt service	284,350
Capital projects	73,322
Total restricted	<u>357,672</u>
Unrestricted	<u>712,627</u>
 TOTAL NET ASSETS	 <u>\$2,555,882</u>

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities
OPERATING REVENUES	<u>\$2,229,140</u>
OPERATING EXPENSES:	
Direct costs	1,301,439
Operating expenses	655,325
Administrative expenses	<u>63,561</u>
TOTAL OPERATING EXPENSES	<u>2,020,325</u>
OPERATING INCOME	<u>208,815</u>
NON-OPERATING INCOME (EXPENSE):	
Interest income	34,747
Economic development contributions	(22,816)
Payments in lieu of property taxes	(40,934)
Interest expense	<u>(136,464)</u>
TOTAL NON-OPERATING INCOME (EXPENSE)	<u>(165,467)</u>
CHANGE IN NET ASSETS	43,348
NET ASSETS - BEGINNING OF YEAR	<u>2,512,534</u>
NET ASSETS - END OF YEAR	<u>\$2,555,882</u>

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF FUND NET ASSETS
JUNE 30, 2006

ASSETS

	Electric Fund	Water Fund	Gas Fund	Total
CURRENT ASSETS:				
Cash and cash equivalents (Note 2):				
Unrestricted, undesignated	\$ 188,197		\$609,027	\$ 797,224
Accounts receivable (net) (Note 3)	102,238	\$ 20,422	53,431	176,091
Inventory	147,543	30,184	20,863	198,590
Prepaid expenses	13,800	1,647	2,878	18,325
Interest receivable	2,264		322	2,586
TOTAL CURRENT ASSETS	<u>454,042</u>	<u>52,253</u>	<u>686,521</u>	<u>1,192,816</u>
NONCURRENT ASSETS:				
Bond costs (net)	57,054	4,442		61,496
Notes receivable (Note 4)	120,909		11,909	132,818
Restricted assets:				
Revenue bond sinking fund	35,916	6,801		42,717
Principal and interest reserve	214,700	26,933		241,633
Improvement fund	73,322			73,322
TOTAL NONCURRENT ASSETS	<u>501,901</u>	<u>38,176</u>	<u>11,909</u>	<u>551,986</u>
CAPITAL ASSETS (Note 5):				
Capital assets	4,229,472	2,154,646	637,400	7,021,518
Accumulated depreciation	(1,408,774)	(1,142,960)	(439,201)	(2,990,935)
TOTAL CAPITAL ASSETS	<u>2,820,698</u>	<u>1,011,686</u>	<u>198,199</u>	<u>4,030,583</u>
 TOTAL ASSETS	 <u>\$3,776,641</u>	 <u>\$1,102,115</u>	 <u>\$896,629</u>	 <u>\$5,775,385</u>

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF FUND NET ASSETS - Continued
JUNE 30, 2006

LIABILITIES AND FUND NET ASSETS

	Electric Fund	Water Fund	Gas Fund	Total
CURRENT LIABILITIES:				
Cash deficit		\$ 347,782		\$ 347,782
Accounts payable	\$ 64,037	6,207	\$ 83,797	154,041
Accrued interest	9,639	643		10,282
Accrued payroll taxes	420	1,984	260	2,664
Accrued sales and use tax	4,457	938	2,424	7,819
Accrued salaries and vacation	925	5,208	8,905	15,038
Customer meter deposits	2,909	972	2,996	6,877
Current portion long-term debt	95,000	35,000		130,000
TOTAL CURRENT LIABILITIES	<u>177,387</u>	<u>398,734</u>	<u>98,382</u>	<u>674,503</u>
LONG-TERM DEBT (Note 6):				
Revenue capital notes payable	2,490,000	185,000		2,675,000
Less current portion above	(95,000)	(35,000)		(130,000)
TOTAL LONG-TERM DEBT	<u>2,395,000</u>	<u>150,000</u>		<u>2,545,000</u>
TOTAL LIABILITIES	<u>2,572,387</u>	<u>548,734</u>	<u>98,382</u>	<u>3,219,503</u>
FUND NET ASSETS:				
Invested in capital assets - net of related debt	425,698	861,686	198,199	1,485,583
Restricted:				
Debt service	250,616	33,734		284,350
Capital projects	73,322			73,322
Total restricted	<u>323,938</u>	<u>33,734</u>		<u>357,672</u>
Unrestricted	454,618	(342,039)	600,048	712,627
TOTAL FUND NET ASSETS	<u>1,204,254</u>	<u>553,381</u>	<u>798,247</u>	<u>2,555,882</u>
TOTAL LIABILITIES AND FUND NET ASSETS	<u>\$3,776,641</u>	<u>\$1,102,115</u>	<u>\$896,629</u>	<u>\$5,775,385</u>

LAKE PARK MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	Electric Fund	Water Fund	Gas Fund	Total
REVENUE:				
Operating revenues	<u>\$ 897,469</u>	<u>\$171,618</u>	<u>\$1,160,053</u>	<u>\$2,229,140</u>
OPERATING EXPENSES:				
Direct costs	383,652	54,995	862,792	1,301,439
Other operating expenses	324,266	183,190	147,869	655,325
Administrative expenses	<u>25,746</u>	<u>17,354</u>	<u>20,461</u>	<u>63,561</u>
TOTAL OPERATING EXPENSES	<u>733,664</u>	<u>255,539</u>	<u>1,031,122</u>	<u>2,020,325</u>
OPERATING INCOME (LOSS)	<u>163,805</u>	<u>(83,921)</u>	<u>128,931</u>	<u>208,815</u>
NON-OPERATING INCOME (EXPENSE):				
Interest income	24,265	1,486	8,996	34,747
Economic development contributions	(11,500)	(33)	(11,283)	(22,816)
Payments in lieu of property taxes	(28,041)	(1,114)	(11,779)	(40,934)
Interest expense	<u>(128,185)</u>	<u>(8,200)</u>	<u>(79)</u>	<u>(136,464)</u>
TOTAL NON-OPERATING INCOME (EXPENSE)	<u>(143,461)</u>	<u>(7,861)</u>	<u>(14,145)</u>	<u>(165,467)</u>
CHANGE IN FUND NET ASSETS	20,344	(91,782)	114,786	43,348
FUND NET ASSETS - JULY 1, 2005	<u>1,183,910</u>	<u>645,163</u>	<u>683,461</u>	<u>2,512,534</u>
FUND NET ASSETS - JUNE 30, 2006	<u>\$1,204,254</u>	<u>\$553,381</u>	<u>\$ 798,247</u>	<u>\$2,555,882</u>

LAKE PARK MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	Electric Fund	Water Fund	Gas Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$890,113	\$ 167,257	\$1,182,195	\$2,239,565
Cash paid to suppliers	(511,328)	(117,635)	(928,989)	(1,557,952)
Cash paid to employees	(125,272)	(77,460)	(74,359)	(277,091)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>253,513</u>	<u>(27,838)</u>	<u>178,847</u>	<u>404,522</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Economic development contributions	(11,500)	(33)	(11,283)	(22,816)
Payments in lieu of property taxes	(28,041)	(1,114)	(11,779)	(40,934)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(39,541)</u>	<u>(1,147)</u>	<u>(23,062)</u>	<u>(63,750)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(114,526)	(26,590)	(16,597)	(157,713)
Revenue bond principal repayment	(95,000)	(30,000)		(125,000)
Interest paid	(118,546)	(8,200)	(79)	(126,825)
Increase in sinking, reserve, and improvement funds	(58,938)	(3,917)		(62,855)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(387,010)</u>	<u>(68,707)</u>	<u>(16,676)</u>	<u>(472,393)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Principal received on note	23,500			23,500
Interest received from investments	24,265	1,486	8,996	34,747
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>47,765</u>	<u>1,486</u>	<u>8,996</u>	<u>58,247</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(125,273)	(96,206)	148,105	(73,374)
CASH (CASH DEFICIT) AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>313,470</u>	<u>(251,576)</u>	<u>460,922</u>	<u>522,816</u>
CASH (CASH DEFICIT) AND CASH EQUIVALENTS - END OF YEAR	<u>\$188,197</u>	<u>\$(347,782)</u>	<u>\$ 609,027</u>	<u>\$ 449,442</u>

LAKE PARK MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS - Continued
FOR THE YEAR ENDED JUNE 30, 2006

	Electric Fund	Water Fund	Gas Fund	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Income from operations	\$163,805	\$(83,921)	\$128,931	\$208,815
Adjustments to reconcile income from operations to net cash provided by operating activities:				
Depreciation	128,071	67,353	18,352	213,776
Amortization	3,170	889		4,059
(Increase) decrease in:				
Accounts receivable	(7,050)	(4,087)	23,695	12,558
Inventory	(11,970)	(12,530)	3,522	(20,978)
Prepaid expenses	(5,571)	(131)	(821)	(6,523)
Increase (decrease) in:				
Accounts payable	(15,761)	1,143	(356)	(14,974)
Accrued payroll taxes	420	1,984	260	2,664
Accrued sales and use taxes	2,670	88	2,424	5,182
Accrued salaries and vacation	(3,965)	1,648	4,393	2,076
Customer deposits	<u>(306)</u>	<u>(274)</u>	<u>(1,553)</u>	<u>(2,133)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$253,513</u>	<u>\$(27,838)</u>	<u>\$178,847</u>	<u>\$404,522</u>

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The financial statements of Lake Park Municipal Utilities include the Electric, Water, and Gas enterprise funds which provide services to the residents of the City of Lake Park. Lake Park Municipal Utilities is governed by a five-member board of trustees, which is appointed by the Mayor of the City of Lake Park. Based on the criteria set forth by the Governmental Accounting Standards Board, Lake Park Municipal Utilities is considered a component unit of the City of Lake Park. However, the City's audit covers the primary government only; therefore it does not include financial information concerning the Utilities.

For financial reporting purposes, the Lake Park Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the component unit are such that exclusion would cause the component unit's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (a) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. Lake Park Municipal Utilities has no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Utilities. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Major individual enterprise funds are reported as separate columns in the fund financial statements. The Utilities report the following major enterprise funds:

Electric Fund - the Electric Fund accounts for the operation and maintenance of the electric distribution system.

Water Fund - The Water Fund accounts for the operation and maintenance of the water distribution system.

Gas Fund - The Gas Fund accounts for the operation and maintenance of the gas distribution system.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounts of Lake Park Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The Utilities' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

In reporting the financial activity of its enterprise funds, the Utilities applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utilities distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets and Budgetary Accounting

The Board of Trustees of Lake Park Municipal Utilities submits an annual budget prepared on the accrual basis independent from the City of Lake Park.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Utilities considers as cash and cash equivalents all unrestricted currency on hand, demand and other deposit accounts with banks or other financial institutions, and certificates of deposits with an original maturity of three months or less.

Accounts Receivable

Accounts receivable and revenue are recorded at the time that service is billed. Unbilled revenue for service consumed between periodic scheduled billing dates is not considered to have a material effect on the financial statements. Accounts are reviewed annually; accounts considered uncollectable are written off at that time. Management believes there are no material uncollectible accounts at June 30, 2006.

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Inventories are recorded as an expenditure or, if applicable, capitalized when consumed.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets and increased by unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Utilities' policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Income Taxes

The Utilities is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. DEPOSITS AND INVESTMENTS

The Utilities' deposits in banks at June 30, 2006, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreement; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no assets classified as investments at June 30, 2006.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2006

3. ACCOUNTS RECEIVABLE

Accounts receivable are reported net of allowance for doubtful accounts as follows:

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Gas Fund</u>
Accounts receivable - customers	\$106,158	\$21,502	\$58,491
LESS - Allowance for doubtful accounts	<u>3,920</u>	<u>1,080</u>	<u>5,060</u>
Accounts receivable (net)	<u>\$102,238</u>	<u>\$20,422</u>	<u>\$53,431</u>

4. NOTES RECEIVABLE

In 1991, Lake Park Municipal Utilities loaned Northern Iowa Die Casting (NIDC Corp.) of Lake Park, Iowa \$165,000. Interest only was payable annually until 2002, at which time \$17,000 plus interest shall be due each and every year thereafter until fully paid. The loan is secured by a mortgage on the land and the building. Due to certain economic conditions attained by NIDC Corp., \$40,000 was forgiven each year during the years ended June 30, 1996 and June 30, 2002.

With respect to the above note, Lake Park Municipal Utilities has agreed to finance the interest paid by NIDC Corp. by making contributions to the Lake Park Development Corporation, who in return, will provide NIDC Corp. with funds sufficient to service the interest.

Lake Park Municipal Utilities loaned \$165,000 to the City of Lake Park, Iowa in 1991. Interest is payable semi-annually, over the life of the loan, with annual principal payments of \$15,000 beginning June 1, 2002 through 2007 and annual principal payments of \$20,000 on June 1, 2008 through 2010.

In 1995, Lake Park Municipal Utilities loaned \$30,000 to Silver Lake Apartments, Limited Partnership, a housing project for senior citizens. The note is to be paid back over fifteen years at an annual interest rate of 3% and is due on September 1, 2010. The note is secured by the buildings, personal property and revenues of the partnership. The payments are to be made from the partnership's surplus cash as defined in the promissory note.

The balance of these notes on June 30, 2006 is as follows:

Electric Fund:	
NIDC Corp.	\$ 34,000
City of Lake Park	75,000
Silver Lake Apartments	11,909
Total	<u>\$120,909</u>

Gas Fund:	
Silver Lake Apartments	<u>\$ 11,909</u>

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2006

5. CAPITAL ASSETS

Property, plant, and equipment are stated at cost. The report sets forth the original cost of the assets and accumulated depreciation thereon, based on depreciation rates commensurate with the average normal useful life of the various components of the plant and system. Subsequent additions to the plant and system are recorded on the basis of materials and direct labor costs only and no overhead to cover such items as payroll taxes, materials, handling and transportation has been capitalized.

Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. The Utilities had no capitalized interest during the year.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation rates have been applied on a straight-line basis. Estimated useful lives, in years, for depreciable assets are as follows:

Building and plant	10 - 40
Equipment	5 - 15
Distribution System	20 - 40
Land Improvements	15

A summary of changes in capital assets is as follows:

	Electric Utility Plant		
	Balance at July 1, 2005	Additions	Balance at June 30 2006
Land and improvements	\$ 2,000		\$ 2,000
Buildings	1,094,427	\$ 14,978	1,109,405
Equipment	501,444	13,628	515,072
Distribution system	2,517,075	85,920	2,602,995
Totals	<u>\$4,114,946</u>	<u>\$114,526</u>	<u>\$4,229,472</u>

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2006

5. CAPITAL ASSETS - Continued

A summary of changes in capital assets is as follows:

	Water Utility Plant		
	Balance at July 1, 2005	Additions	Deletions
Land and improvements	\$ 34,278	\$ 728	
Buildings	1,104		
Equipment	155,153		
Distribution system	1,937,521	25,862	
Totals	<u>\$2,128,056</u>	<u>\$26,590</u>	<u></u>

	Gas Utility Plant		
	Balance at July 1, 2005	Additions	Deletions
Land and improvements	\$ 2,061		
Equipment	193,910	\$ 9,554	
Distribution System	424,836	7,039	
Totals	<u>\$620,807</u>	<u>\$16,593</u>	<u></u>

6. LONG-TERM DEBT

Electric Fund

During the year ended June 30, 2005, the Utility issued electric revenue bonds in the amount of \$2,585,000 for electric capital improvements. The bonds bear interest of 3.00% - 5.40%, mature annually from June 1, 2007 to June 1, 2024, and are secured by future net revenues of the Electric Utility.

The resolution providing for the issuance of the revenue bonds provides for the creation of a Sinking Fund, into which shall be set aside an amount equal to the amount of annual principal and interest coming due on those bonds, a Reserve Fund and an Improvement Fund, with funds set aside in each to pay, and support payment of, the principal and interest.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2006

6. LONG-TERM DEBT - Continued

Electric Fund - Continued

A summary of the Electric Fund's June 30, 2006 long-term indebtedness is as follows:

<u>Due Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 95,000
2008	100,000
2009	100,000
2010	105,000
2011	110,000
2012 - 2016	625,000
2017 - 2021	785,000
2022 - 2024	<u>570,000</u>
 TOTAL	 <u>\$2,490,000</u>

Water Fund

During the year ended June 30, 2002, the Utility issued Water Revenue Capital Loan Notes in the amount of \$300,000. The notes bear interest from 3.0% - 4.0%, and mature annually from June 1, 2002 to June 1, 2011. The resolution providing for the issuance of the Revenue Notes provides for the creation of a Sinking Fund into which there shall be set aside an amount sufficient to pay the annual principal and interest coming due on those bonds, and a Reserve Fund, which is established at the minimum required amount. The Capital Loan Notes are secured by future net revenues of the Water Utility.

A summary of the Water Fund's long-term indebtedness follows:

<u>Due Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 35,000
2008	35,000
2009	35,000
2010	40,000
2011	<u>40,000</u>
 TOTAL	 <u>\$185,000</u>

A summary of the changes in long-term debt for the year ended June 30, 2006 is as follows:

	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Balance 7-1-05</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 6-30-06</u>
Water revenue notes	\$ 300,000	3.0%-4.0%	2002-2011	<u>\$ 215,000</u>	<u>\$ 0</u>	<u>\$30,000</u>	<u>\$ 185,000</u>
Electric revenue notes	\$2,585,000	3.0%-5.4%	2006-2024	<u>\$2,585,000</u>	<u>\$ 0</u>	<u>\$95,000</u>	<u>\$2,490,000</u>

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2006

7. PENSION AND RETIREMENT BENEFITS

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utilities contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$8,968, \$13,210, and \$14,073, respectively, equal to the required contributions for each year.

8. COMPENSATED ABSENCES

The Utilities' employees accumulate vacation, sick leave, and comp time hours for subsequent use. The employees receive payment for accumulated vacation and comp time hours upon termination, retirement or death, and therefore the appropriate liability has been recorded on the Utilities' records.

9. ECONOMIC DEVELOPMENT PAYMENTS

By authorization of the Board of Trustees, funds were expended for economic development benefiting the City of Lake Park, Iowa and Lake Park Municipal Utilities.

10. PAYMENTS IN LIEU OF PROPERTY TAXES

By resolution of the Board of Trustees, voluntary payments in lieu of property taxes are made to the City of Lake Park, Iowa. Currently, payments approximate the City's utility usage.

11. RATES

The Utilities' rates are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2006

12. LOCAL GOVERNMENT RISK POOL

Lake Park Municipal Utilities is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

Lake Park Municipal Utilities' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. Lake Park Municipal Utilities' annual contribution to the Pool for the year ended June 30, 2006 was \$24,435.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2006

12. LOCAL GOVERNMENT RISK POOL - Continued

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of the membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contributions; however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

Lake Park Municipal Utilities also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

LAKE PARK MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENSES, AND CHANGES IN BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Actual</u>	<u>Original/ Final Budget</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUE:			
Charges for services	\$2,229,140	\$1,901,956	\$327,184
Non-operating	<u>34,747</u>	<u>193,000</u>	<u>(158,253)</u>
TOTAL REVENUE	<u>2,263,887</u>	<u>2,094,956</u>	<u>168,931</u>
EXPENSES:			
Electric	901,390	1,149,304	247,914
Water	264,886	187,600	(77,286)
Gas	<u>1,054,263</u>	<u>1,049,050</u>	<u>(5,213)</u>
TOTAL EXPENSES	<u>2,220,539</u>	<u>2,385,954</u>	<u>165,415</u>
CHANGE IN FUND NET ASSETS	43,348	(290,998)	<u>\$334,346</u>
FUND NET ASSETS - JULY 1, 2005	<u>2,512,535</u>	<u>3,038,027</u>	
FUND NET ASSETS - JUNE 30, 2006	<u>\$2,555,883</u>	<u>\$2,747,029</u>	

LAKE PARK MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2006

In accordance with the Code of Iowa, the Utilities annually adopts a budget, following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. All Utilities' disbursements are included in business-type activities function.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Lake Park Municipal Utilities
Lake Park, IA 51347

We have audited the financial statements of the Lake Park Municipal Utilities as of and for the year ended June 30, 2006, and have issued our report thereon dated May 30, 2007. We conducted our audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lake Park Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above, items I-A-06 and I-B-06, are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lake Park Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Lake Park and other parties to whom the Lake Park Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Lake Park Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winters, Stace & Co., LLP

May 30, 2007

LAKE PARK MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements

Instances of Noncompliance:

No matters were noted

Reportable Condition:

- I-A-06 Segregation of Duties - One employee handles most of the financial duties, including reconciling accounts and recording financial data. One important aspect of internal control is to prevent employees from handling duties which are incompatible.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Board maintain their diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

- I-B-06 Bank Reconciliations - We noted that bank reconciliations were not prepared on a regular basis.

Recommendation - We recommend that the Utilities implement procedures to routinely reconcile bank accounts to bank statements at month end.

Response - We will prepare monthly bank reconciliations.

Conclusion - Response accepted.

- I-C-06 General Ledger Account Reconciliation - Several general ledger account balances were not adjusted to their correct balance at the end of the year.

Recommendation - General ledger account balances should be reconciled on a regular basis and especially at year end.

Response - We will routinely reconcile and adjust, as needed, general ledger account balances.

Conclusion - Response accepted.

LAKE PARK MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Required Statutory Reporting

- II-A-06 Certified Budget - Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.
- II-B-06 Questionable Disbursements - We noted no expenditures that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures for travel expenses of spouses of officials or employees of the Utilities were noted.
- II-D-06 Business Transactions - We noted no business transactions between the Utilities and Utilities' officials or employees.
- II-E-06 Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-06 Revenue Notes - The Electric Utility is in compliance with all aspects of the bond resolutions, including cash reserves. The Water Utility is in compliance with all aspects of the capital loan notes resolutions, including cash reserves, except that the Utility has not maintained user rates at a level sufficient to produce net revenues to the extent required by the resolutions.

Recommendation - The Utilities should review water user rates and increase them as needed to produce the required net revenues.

Response - The Utilities will evaluate the water usage fees and adjust them accordingly to produce the required level of net revenues.

Conclusion - Response accepted.

- II-H-06 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.

LAKE PARK MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Required Statutory Reporting - continued

II-I-06 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image but does not obtain an image of the back of each cancelled check as required.

Recommendation - The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The City will work with its bank to obtain the proper documentation. If the bank with the existing checking account is unable or unwilling to provide the proper documentation, bids will be solicited from other area banks.

Conclusion - Response accepted.